

Message Text

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TO ALL DIPLOMATIC AND CONSULAR POSTS

C O N F I D E N T I A L STATE 095205

INFORM CONSULS

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: CONSUMER/PRODUCER PREPARATORY MEETING

1. IN RESPONSE TO THE INVITATION OF TH FRENCH GOVERNMENT,
A PREPARATORY MEETING (PREPCON) TO PLAN FORA CONSUMER/PRO-
DUCER CONFERENCE ON ENERGY WAS HELD IN PARIS APRIL 7-15.
PARTICIPANTS, BASED ON AN EARLIER SUGGESTION MADE BY SAUDI
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ARABIAN OIL MINISTER YAMANI, WERE: THE US, EC AND JAPAN
(REPRESENTING THE INDUSTRIALIZED COUNTRIES), SAUDI ARABIA,
IRAN, VENEZUELA AND ALGERIA (REPRESENTING OPEC); AND BRA-
ZIL,INDIA AND ZAIRE (REPRESENTING LDC CONSUMINGNATIONS).

THE UN, OECD AND IEA ATTENDED AS OBSERVERS. ALTHOUGH INVITED, OPEC PARTICIPATION AS AN OBSERVER WAS BLOCKED BY ALGERIA AND LIBYA. THE MEETING WAS DESIGNED TO BE STRICTLY PROCEDURAL IN NATURE; ITS MANDATE WAS LIMITED TO AGREEING ON AN AGENDA, PARTICIPATION, SITE AND TIMING FOR A SUBSEQUENT FULL CONFERENCE.

2. FROM THE OUTSET, THE PREPCON WAS CHARACTERIZED BY A BASIC SPLIT BETWEEN THE THREE INDUSTRIALIZED COUNTRY DELEGATIONS AND THE SEVEN OPEC/LDC DELEGATIONS, EACH GROUP ACTING AS A SINGLE BLOC. THE DELEGATIONS OF THE SEVEN MET IN PARIS ON APRIL 4-5 TO PLAN A STRATEGY FOR THE PREPCON. THE TALKS BROKE DOWN AFTER NINE DAYS OF INTENSIVE NEGOTIATIONS, POSTPONING FOR THE PRESENT EFFORTS TO PREPARE A

FORMAL CONFERENCE.

3. THE FUNDAMENTAL ISSUE WHICH THE PREPCON WAS UNABLE TO RESOLVE WAS WHETHER THE SUBSEQUENT FULL CONFERENCE WOULD FOCUS ON "ENERGY AND ENERGY RELATED MATTERS" OR WOULD BE EXPANDED TO TREAT BROADER ASPECTS OF ECONOMIC RELATIONS BETWEEN THE INDUSTRIALIZED NATIONS AND THE THIRD WORLD, THUS TURNING THE CONFERENCE INTO ONE ON THE "NEW INTERNATIONAL ECONOMIC ORDER." THE THREE INSISTED THAT THE FRENCH GOVERNMENT'S INVITATION HAD BEEN TO PREPARE FOR A CONFERENCE ON ENERGY AND ENERGY-RELATED ECONOMIC ISSUES AND THAT THE AGENDA SHOULD REFLECT THIS CONCENTRATION. THE IEA, WITH THE GOVERNING BOARD MEETING CONCURRENTLY WITH THE PREPCON, SUPPORTED THIS POSITION. THE SEVEN DEMANDED THAT RAW MATERIALS, DEVELOPMENT AND REFORM OF THE INTERNATIONAL MONETARY SYSTEM RECEIVE EQUAL ATTENTION WITH ENERGY ON THE AGENDA. THE INDUSTRIALIZED COUNTRIES DEMONSTRATED CONSIDERABLE FLEXIBILITY IN THEIR APPROACH TO THE AGENDA ISSUE, OFFERING TO GIVE ATTENTION TO THE PROBLEMS OF ECONOMIC DEVELOPMENT AND OF OTHER RAW MATERIALS BUT WITHIN THE OVERALL CONTEXT OF THE ENERGY ISSUE.

4. THE SEVEN ALSO INSISTED THAT THE AGENDA INCLUDE SPECIFIC REFERENCES TO THE MAINTENANCE OF PURCHASING POWER OF CONFIDENTIAL

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EARNINGS (INDEXATION) FROM EXPORTED ENERGY AND OTHER RAW MATERIALS AS WELL AS MAINTENANCE OF REAL VALUE OF FINANCIAL ASSETS (E.G. INVESTMENT IN DEVELOPED COUNTRIES). ALTHOUGH THE THREE OFFERED TO TREAT THESE ISSUES UNDER AN AGENDA FORMULATION WHICH WOULD ALLOW THEM TO BE DISCUSSED AT THE CONFERENCE AS "ISSUES RELATED TO EXPORT EARNINGS," THEY RESISTED EFFORTS BY THE SEVEN TO INCLUDE THEM ON THE AGENDA IN A WAY WHICH TENDED TO PREJUDGE CONCLUSIONS.

5. SPEARHEADED BY ALGERIAN EFFORTS WHICH BEGAN EVEN BEFORE THE PREPCON, THE SEVEN OPPOSED IEA ATTENDANCE AS AN OBSERVER AT THE FULL CONFERENCE. ALGERIA MAINTAINED

THAT IEA IS A CONFRONTATIONAL ORGANIZATION WHOSE EXISTENCE IS NOT RECOGNIZED BY THE OPEC NATIONS. THE SEVEN ALSO ARGUED THAT THE PRESENCE OF IEA WOULD GIVE THE CONFERENCE TOO MUCH OF AN ENERGY ORIENTATION, WHICH WOULD CONFLICT WITH THEIR BASIC OBJECTIVE OF EXPANDING THE FOCUS BEYOND ENERGY. WITH UNANIMOUS SUPPORT FROM OTHER IEA MEMBERS, THE THREE CONDITIONED THEIR ATTENDANCE AT THE CONFERENCE, AND ACCEPTANCE OF ANY AGREED AGENDA, ON IEA PRESENCE AS AN OBSERVER WITH THE RIGHT TO SPEAK. TO ACCEPT IEA EXCLUSION WOULD BE TO ACCEPT IMPLICITLY THE CONFRONTATIONALIST CHARGE AND WOULD PREVENT REPRESENTATION AT THE CONFERENCE (VIA IEA) OF MANY IMPORTANT CONSUMING

COUNTRIES. THE QUESTION OF IEA PRESENCE AS AN OBSERVER WAS NOT SETTLED BEFORE THE CONFERENCE ADJOURNED.

6. ALTHOUGH THE PREPCON DID NOT FORMALLY SETTLE THE PARTICIPATION ISSUE, A COMPROMISE WAS IN SIGHT WHICH WOULD HAVE FIXED THE TOTAL NUMBER OF PARTICIPANTS AT THE CONFERENCE AT 26 OR 27. THE OPEC/LDC BLOC WOULD HAVE HAD 18-19 PLACES, AT LEAST SEVEN OF WHICH WOULD HAVE TO GO TO OPEC MEMBERS. ALL PARTICIPANTS IN THE PREPCON WOULD ATTEND, AND EACH SIDE WOULD BE RESPONSIBLE FOR SELECTING ADDITIONAL REPRESENTATIVES TO THE FULL CONFERENCE. THE OPEC/LDC BLOC INDICATED THAT ITS REPRESENTATIVES WOULD BE SELECTED THROUGH THE GROUP OF 77.
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7. THE PREPCON STARTED AND PROCEEDED SLOWLY, GRADUALLY GAINING MOMENTUM AND TENSION. AFTER OPENING STATEMENTS, THE TWO SIDES PUT FORWARD COMPETING DRAFT AGENDAS. THE EC AGENDA FOCUSED ON ENERGY AND CLEARLY LINKED DISCUSSION OF OTHER ECONOMIC ISSUES TO ENERGY. IN VARIOUS INTERVENTIONS IN THE PLENARY, THE EC, JAPAN AND THE US DELEGATES INDICATED WILLINGNESS TO INTERPRET "ENERGY-RELATED" BROADLY ENOUGH TO ENSURE DISCUSSION OF DEVELOPMENT, RAW MATERIALS AND ASSISTANCE TO MSAS WHICH WERE OF PRIMARY INTEREST TO THE OPEC/LDC COUNTRIES. THE AGENDA PUT FORWARD BY THE SEVEN WAS ESSENTIALLY BASED ON THE OPEC SUMMIT DECLARATION, GIVING ENERGY FIRST BILLING UNDER THE RAW MATERIALS RUBRIC, BUT PROVIDING FOR EQUAL TREATMENT FOR DEVELOPMENT AND INTERNATIONAL MONETARY REFORM. WITH PROGRESS BLOCKED IN THE PLENARY, A "CONTACT GROUP, COMPOSED OF THE EC, IRAN AND ZAIRE MET ON THE THIRD DAY TO TRY TO RECONCILE DIFFERENCES ON THE AGENDA. THE GROUP WAS LATER ENLARGED TO INCLUDE ALGERIA AND SAUDI ARABIA, WITH THE US AND JAPAN PARTICIPATING FIRST AS OBSERVERS AND LATER AS FULL PARTICIPANTS. DESPITE INTENSIVE NEGOTIATING SESSIONS INTO THE EARLY MORNING HOURS, THE CONTACT GROUP WAS UNABLE TO BRIDGE THE GAP BETWEEN THE TWO SIDES ON THE SCOPE AND FOCUS OF THE AGENDA FOR THE FULL CONFERENCE.

8. EARLY ON SATURDAY MORNING, THE US, EC, AND JAPANESE REPRESENTATIVES PRESENTED TO THE #TECHNICAL CHAIRMAN" A JOINT CONCLUSION THAT THERE WAS NO HOPE OF RESOLVING THE IMPASSE AND THAT THE PREPCON SHOULD BE ADJOURNED.

9. LATE ON SATURDAY, THE FRENCH CHAIRMAN GAVE THE THREE A REVISED AGENDA (WHOSE AUTHORSHIP WAS NEVER REVEALED), WHICH HE CLAIMED WAS ACCEPTABLE TO THE SEVEN. (THAT MORNING, THE FRENCH PRESS PUBLISHED THE OFFICIAL

COMMUNIQUE ON THE VISIT OF PRESIDENT GISCARD D'ESTAING TO ALGIERS, WHICH ANNOUNCED THAT HE AND PRESIDENT BOUMEDIENE HAD REACHED BROAD AGREEMENT ON AN AGENDA FOR THE FULL CONFERENCE). FRENCH FOREIGN MINISTER SAUVAGNARGUES PRESENTED THIS SAME AGENDA TO THE EC FOREIGN MINISTERS. CONFIDENTIAL

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TERS MEETING IN DUBLIN ON SATURDAY AFTERNOON AND SOLICITED THEIR SUPPORT.

10. THE NEW DRAFT SUBSTANTIALLY ATTENUATED THE "LINKAGE" BETWEEN ENERGY AND OTHER ECONOMIC PROBLEMS AND INCLUDED OBJECTIONABLE LANGUAGE ON INDEXATION AND MONETARY PROBLEMS. THE EC, THE US AND JAPAN JOINED IN AN ALL NIGHT SESSION TO REVISE THIS NEW DRAFT TO REMOVE THE OBJECTIONABLE REFERENCES AND TO ADD LANGUAGE UNDER THE CONCLUSIONS SECTION THAT WOULD PERMIT REFERRAL OF MANY ISSUES TO OTHER INTERNATIONAL FORA ALREADY DEALING WITH THEM.

11. THE SEVEN REJECTED THIS REVISED AGENDA. THIS ACTION WAS COUPLED WITH ANOTHER EFFORT LED BY THE ALGERIANS TO EXCLUDE IEA PARTICIPATION IN THE CONFERENCE. THE INTRANSIGENCE DEMONSTRATED BY THE SEVEN ON THE AGENDA AND THE RENEWED PLAY TO SHUT OUT THE IEA SEALED THE FATE OF THE CONFERENCE. THE LAST TWO DAYS WERE SPENT IN DELICATE MANEUVERING BY BOTH SIDES TO AVOID RESPONSIBILITY FOR THE FAILURE OF THE PREPCON.

12. A NUMBER OF INFORMAL AGENDA DRAFTS WERE DISCUSSED IN THE CONTACT GROUP, BUT ONLY THREE DRAFTS OBTAINED FORMAL STATUS AT THE PREPCON, THE ORIGINAL EC PROPOSAL, THE ORIGINAL AGENDA PUT FORWARD BY THE OPEC/LDC GROUP, AND A LAST MINUTE VERSION PUT TOGETHER BY THE SEVEN ON THE BASIS OF THE DRAFT OF UNCERTAIN PROVENANCE GIVEN US BY THE FRENCH. THIS LAST DRAFT OF THE SEVEN, WHICH WAS CIRCULATED BY VENEZUELA AT THE CLOSING PLENARY, CONTAINED ONLY A LISTING OF TOPICS, WITH NO DESCRIPTIVE LANGUAGE.

13. COHESION AMONG THE SEVEN: THE ALGERIANS SEEMED CLEARLY TO BE THE FIRMEST AMONG THE "SEVEN" IN ASSERTING THE VIEW THAT THE CONFERENCE SHOULD DEAL FUNDAMENTALLY

WITH SUBJECTS RELATED TO THE CREATION OF A "NEW INTERNATIONAL ECONOMIC ORDER". AMONG THE OTHER OPEC PARTICIPANTS, THE VENEZUELANES WERE MOST ARTICULATE ON THIS POINT. THE IRANIANS WERE ACTING UNDER INSTRUCTIONS WHICH SHARPLY RESTRICTED THEIR FLEXIBILITY AND WHICH REQUIRED THEM TO INSIST ON INCLUDING INDEXATION IN THE AGENDA FOR THE WHOLE CONFERENCE. THE SAUDIS GAVE THE IMPRESSION OF BEING CONFIDENTIAL

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THE LEAST DOGMATIC AMONG THE OPEC PARTICIPANTS, BUT

MAINTAINED A SOLID FRONT WITH ALL THE OTHERS THROUGHOUT THE PREPCON. AMONG THE LDC CONSUMERS, THE INDIANS WERE MAINLY INTERESTED IN ASSURING THAT AN ITEM ON ASSISTANCE TO THE MSA'S WOULD BE INCLUDED ON THE AGENDA. THE ZAIREANS MADE IT CLEAR TO US THAT THEIR PRINCIPAL INTEREST WAS IN SEEING THAT SPECIFIC ATTENTION AT THE CONFERENCE WOULD BE GIVEN TO THE PROBLEMS OF COPPER (AND A COUPLE OF AGRICULTURAL RAW MATERIALS). THE BRAZILIANS APPEARED TO BE SYMPATHETIC TO A MODERATING ROLE BUT--LIKE THE INDIANS AND ZAIREANS--IN THE FINAL ANALYSIS WERE NOT PREPARED TO TAKE AND DID NOT TAKE A POSITION AT VARIANCE WITH THAT ADVOCATED BY THE ALGERIANS AND OTHER OIL PRODUCERS. DURING NUMEROUS CONVERSATIONS BETWEEN MEMBERS OF THE AMERICAN DELEGATION AND REPRESENTATIVES OF THE SEVEN, PERSONAL RELATIONS WERE CONSISTENTLY CORDIAL DESPITE CLEARLY ENUNCIATED DIFFERENCES OF VIEW.

14. SEVERAL IMPORTANT CONCLUSIONS CAN BE DRAWN FROM THE PREPCON. FIRST, OPEC MEMBERS HAVE BEEN SUCCESSFUL IN IDENTIFYING THEIR INTERESTS WITH THOSE OF OTHER LDCS DESPITE THE ADVERSE EFFECT OF HIGH OIL PRICES ON THE DEVELOPMENT EFFORTS OF THE THIRD WORLD. SECOND, THE OPEC/LDC BLOC APPEARS SOLID, AND THE LDCS ARE LIKELY TO USE THE IMPACT OF THE OIL PRICE INCREASE AS AN ARGUMENT FOR INCREASING RAW MATERIAL PRICES GENERALLY. THIRD, ARMED WITH A NEW DOGMA--THE NEW INTERNATIONAL ECONOMIC ORDER--THE OPEC/LDC BLOC WILL CARRY THE BATTLE TO THE INDUSTRIALIZED WORLD WITH INCREASING INTENSITY IN VARIOUS INTERNATIONAL FORA IN THE FUTURE.

15. CONSUMER SOLIDARITY, ALTHOUGH SUBJECTED TO SEVERE STRESS BY THE ROLE PLAYED BY THE FRENCH, WAS STRENGTHENED. OTHER INDUSTRIALIZED COUNTRIES IN THE IEA SOLIDLY BACKED THE POSITIONS TAKEN BY THE THREE, WHO SHOWED SIGNIFICANT FLEXIBILITY IN ATTEMPTING TO MEET THE CONCERNS OF THE DEVELOPING WORLD.

16. THE FRENCH SUFFERED A SHARP POLITICAL SETBACK. A MAJOR POLITICAL INITIATIVE BY THE FRENCH PRESIDENT FAILED, CONFIDENTIAL

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DESPITE HIS PERSONAL INTERVENTION DURING THE MEETING. THE FRENCH "TECHNICAL CHAIRMAN" TENDED TO ABANDON HIS NEUTRAL ROLE IN THE CLOSING DAYS OF THE CONFERENCE IN A DESPERATE EFFORT TO SAVE THE PREPCON. THE FRENCH WERE ALSO ISOLATED WITHIN THE EC--PARTICULARLY WHEN THEY MOVED THAT THE EC SUPPORT THE LAST MINUTE DRAFT AGENDA OF THE SEVEN.

17. THE PREPCON CONFIRMED THAT OIL PRICES CANNOT BE BROUGHT DOWN THROUGH THE MEDIUM OF APRODUCER/CONSUMER DIALOGUE. THE OPEC REPRESENTATIVES TOOK THE POSITION THAT INDUSTRIALIZED NATION PARTICIPATION IN ESTABLISHING OIL PRICES ARE NEITHER NEEDED NOR WANTED. THEY WERE NOT PREPARED TO DISCUSS OIL PRICES AND SUPPLY AT A CONFERENCE UNLESS THE INDUSTRIALIZED COUNTRIES WOULD AGREE TO DISCUSS PRICES OF ALL RAW MATERIALS. AS THE SECRETARY STATED IN NOVEMBER, A REDUCTION IN OIL PRICES CAN ONLY OCCUR WHEN THE OBJECTIVE CONDITIONS FOR THE REDUCTION HAVE BEEN CREATED. AT THIS TIME, IT DOES NOT APPEAR THAT THE BALANCE OF FORCES IN THE WORLD OIL MARKET IS CONDUCIVE TO A SERIOUS DIALOGUE ON ENERGY.

18. POSTS SHOULD DRAW ON THE FOLLOWING POINTS IN COMMENTING ON THE PREPCON:

(A) THE PREPCON WAS AN IMPORTANT FIRST STEP IN THE ESSENTIALDIALOGUE BETWEENPRODUCERS AND CONSUMERS.

(B) WE CLARIFIED THE DIFFERENCES IN OUR RESPECTIVE VIEWS AS TO WHAT SUBJECTS SHOULD BE INCLUDED IN THE AGENDA. THIS UNDERSTANDING WILL BE USEFUL IN FUTURE PLANNING.

(C) THE US, JAPAN AND EC FELT THAT INCLUSION OF RAW MATERIALS ANDNORTH-SOUTH RELATIONS SO BROADENED THE SUBJECT AREA THAT IT WOULD ENSURE FAILURE TO ACHIEVE ANY MEANINGFUL RESULTS IN A FULL PRODUCER/CONSUMER CONFERENCE.

(D) WE STAND READY TO EXPLORE VARIOUS WAYS IN WHICH WE MIGHT DEAL WITH ALL OF THESE IMPORTANT ISSUES IN OTHER APPROPRIATE FORA SO THAT WE MIGHT GET ON WITH A CONSTRUCTIVE DIALOGUE ON ENERGY AND ENERGY RELATED MATTERS, WHICH CONFIDENTIAL

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WE CONTINUE TO BELIEVE DESERVES OUR JOINT CONSIDERATION. KISSINGER

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